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UNICEF strategic plan: updated financial estimates, 2014-2017

Summary

A four-year financial framework forms part of the UNICEF strategic plan, which is presented, usually for a period of four years, in accordance with Executive Board decisions 2000/3 and 2013/20. The financial plan is reviewed and revised annually on a rolling basis. The current strategic plan covers 2014-2017.

Total revenue is forecast to be $4,034 million in 2014, a decline of 17 per cent from 2013. Revenue is projected to remain flat in 2015 and resume gradual growth thereafter. Total expenditures in 2014 are estimated at $4,278 million, exceeding revenue by $244 million. The deficit will be financed from cash balances. The planned expenditures will reduce cash balances but UNICEF will continue to meet prudent liquidity requirement.

This financial framework of revenue and expenditure estimates provides a basis for determining the level of regular resources programme submissions to be approved in 2015. Allocations of regular resources for country programmes during the period under review will be managed through the modified system for allocation of regular resources for programmes as revised by the Executive Board in its decisions 2007/15 and 2013/20.

UNICEF recommends that the Executive Board approve the framework of planned financial estimates for 2014-2017 and approve the preparation of programme expenditure submissions to the Executive Board of up to $1,247 million from regular resources in 2015, subject to the availability of resources and the continued validity of these planned financial estimates. A draft decision is included in section III.

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Introduction

1. A four-year financial plan forms part of the UNICEF strategic plan in accordance with Executive Board decision 2000/3 and 2013/20 and is reviewed and revised annually on a rolling basis.

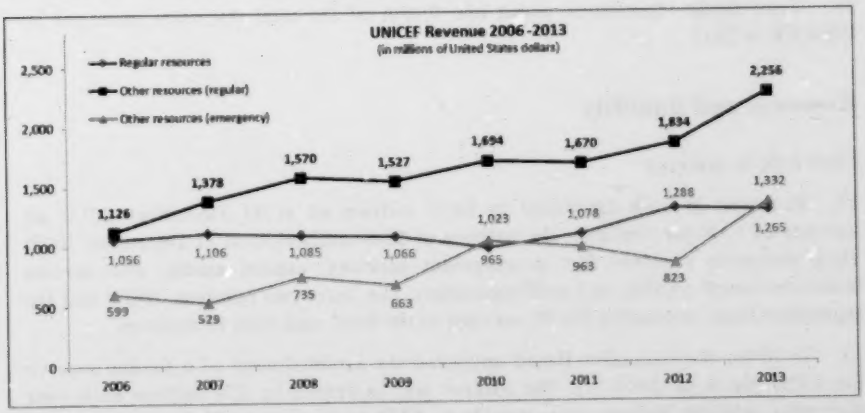
2. The financial plan is preceded by a review of the financial performance of UNICEF in the previous year, with highlights of the financial trends that evolved during a recent multi-year period. The purpose of the review is to provide key high-level information on revenue, expenditure and liquidity as a baseline to the financial plan.

I. Financial review, 2013

A. Revenue

3. Total revenue in 2013 was $4,853 million, reflecting an increase of $908 million over the 2012 income. The main source of revenue continues to be voluntary contributions from governments, private organizations and individuals, which accounted for 97 percent of total revenue. The remaining three percent of the revenue were generated by sale of greeting cards and products ($70 million), interest ($29 million), procurement services for partners ($46 million), and miscellaneous activities ($13 million).

4. While contributions to regular resources (unearmarked or "core" funds) decreased by 2 per cent in 2013, other resources (earmarked funds) experienced an unprecedented growth of $735 million, or 35 percent, in one year. In 2013, for the first time, private sector sources contributed more to core resources than governments did. Other resources regular (development) and other resources emergency increased by $422 million and $509 million, respectively.



5. The substantial increase of contributions to other resources in 2013, which was partly due to a generous funding to humanitarian programmes in the Philippines, Syrian Arab Republic, and Africa, further increased the share of other resources (earmarked) to total income while decreasing the share of core resources to total

income. In 2013, core resources accounted for 26 percent of total income, compared to 33 percent in 2012.

6. As in 2012, private sector donations accounted for nearly one third of UNICEF revenues in 2013. Contributions from the National Committees for UNICEF, which are non-governmental organizations that promote child rights in 36 industrialized countries and raise funds for UNICEF programmes worldwide, totalled $1.10 billion in 2013 — an increase of 28 percent over 2012 contributions.

B. Expenditure

7. Total expenditure amounted to $4,246 million in 2013, an increase of 9 per cent over 2012. Programme and development effectiveness represented 89 per cent of total UNICEF expenditure in 2013.

8. Further detailed analysis of 2013 financial performance is provided under chapter IV of UNICEF Financial Statements for 2013 as well as in the annual report of the Executive Director of UNICEF presented at the 2014 annual session of the Executive Board.

C. Trust funds

9. Trust funds are established mainly for services carried out on behalf of governments and other organizations for the procurement of vaccines and other commodities essential for the well-being of children.

10. Procurement services receipts more than doubled, from $593 million in 2006 to $1,561 million in 2013. This increase reflects the evolving opportunities that UNICEF has to shape the global market for vaccines and other child-related products and to achieve savings for partners and UNICEF.

11. Trust funds represented about one fourth of the total resources managed by UNICEF in 2013.

D. Reserves and liquidity

Cash held in reserves

12. Reserves in cash amounted to $437 million as at 31 December 2013, an increase of 13.8 per cent over the balance of $384 million as at 31 December 2012. They comprise reserves for: procurement services, capital assets, after-service health insurance (ASHI) and staff separation. The latter two reserves, ASHI and the separation fund, accounted for 98 per cent of the total cash held in reserves.

13. In 2003, the Executive Board approved the establishment of a funded reserve for ASHI (decision 2003/11). The reserve was increased by $30 million each year thereafter, and the balance was brought to $270 million as at 31 December 2011. Starting in 2012, UNICEF implemented a long-term strategy to fund the ASHI reserve through payroll charges. The ASHI reserve balance as at 31 December 2013 was $371 million, an increase of 15 per cent over the 31 December 2012 balance of $323 million. The latest actuarial study has valued ASHI liability at $816 million as

at 31 December 2013, a decrease of 14 per cent, compared to $950 million as at 31 December 2012.

14. In 2006, the Executive Board approved the establishment of a separation fund to cover separation and termination liabilities. The fund is built up on a monthly basis by the net of total contributions less payments made. There was an increase of $8 million in the reserve in 2013, from $51 million as at 31 December 2012 to $59 million as at 31 December 2013. The latest actuarial study has valued the end-of-service (repatriation, travel expenses and shipping costs) liability at $107 million.

Liquidity after reserves

15. Total available cash balance, excluding reserves, at the end of 2013 was $2,428 million: $575 million of regular resources and $1,853 million of other resources. Details are presented in tables 3 and 5.

16. Contributions for both other resources and trust funds are normally received before implementation begins and are governed by multi-year agreements.

17. The available cash balance in regular resources, excluding reserves, declined by about 10 per cent, from a high of $652 million in 2008 to $575 million in 2013.

18. In 2013, UNICEF met the requirement of a prudent level of liquidity for regular resources defined as the equivalent of expenditure for three to six months, or about $300 million to $600 million. This prudent guideline concurs with the general practice of non-profit organizations, including the United Nations community.

II. Planned financial estimates for 2014-2017

19. This section presents the projections of UNICEF financial resources in the period 2014 through 2017. It comprises revenue and expenditure projections, and the resulting cash balances for regular resources and other resources. Estimates for trust funds are also included. In line with decision 2013/20, the presentation of the planned financial estimates has been aligned with the format of the integrated resource plan as presented in the UNICEF integrated budget for 2014-2017 and presents planned use of resources grouped by the harmonized cost classification categories.

20. The financial projections provide a financial framework for the yearly phasing of estimated regular resources expenditure. In particular, it provides a financial context to future programme submissions to be made to the Executive Board.

A. Revenue

21. The present financial plan has been developed during a period of economic uncertainty. While children's needs increase during periods of economic hardships, the realities of fiscal austerity and high unemployment in many donor countries dictate prudent financial projections. Despite the ongoing difficult economic climate, UNICEF continues to be a partner of choice for donors.

22. After experiencing an unprecedented growth of 35 per cent in 2013, other resources revenue is projected to decline by 25 per cent in 2014. After 2014,

revenue is estimated to grow at modest rates between 1 to 3 per cent for period 2015-2017. Revenue estimates are provided in table 1 of the annex.

23. The share of private contributions in UNICEF total revenue is expected to increase in the medium term, from 30 per cent in 2013 to 36 per cent in 2017.

24. Regular resources revenue is expected to increase 6 per cent in 2014 and maintain a modest growth of between 1 to 5 per cent per year from 2015 onwards, primarily resulting from growth in private sector fundraising. Estimates of regular resources revenue are provided in table 1.

B. Expenditure

25. Despite the projected decline in total revenue in 2014, total expenditure is expected at planned levels in 2014. Smooth implementation of ongoing programmes will be allowed by financing the deficit with cash balances. If total revenue declines further in 2015, as forecasted, total expenditure will be adjusted downward in 2015 but would still be higher than revenue.

26. As shown in table 2, total estimated annual expenditure during the planning period will exceed the projected annual revenue. The resulting deficit will be funded from the balance accumulated in prior years when actual revenue was greater than planned.

Regular resources expenditure

27. The main components of regular resources expenditure are: (a) development activities comprising (i) programmes, and (ii) development effectiveness and accounting for 78 per cent of the total use of regular resources; (b) management activities accounting for 11 per cent; and (c) special purpose activities accounting for 11 per cent.

Programmes

28. As noted in the review of revenue performance, growth in other resources is outpacing growth in regular resources, with contributions of regular resources from donor governments having slowed down. While it is positive that UNICEF is succeeding in generating regular resources from the private sector, which in 2013 for the first time contributed more than donor governments, UNICEF hopes that donor governments will also continue to support and increase their regular resource contributions which provide UNICEF the maximum leverage and flexibility to support implementation of the strategic plan, 2014-2017. UNICEF will continue to further manage and reduce costs and look for ways to maximize value for money in order to sustain current levels of regular resources investment in country programmes.

29. If the conservative revenue projections under this plan are realized, UNICEF intends to increase the annual allocation of regular resources for programme assistance progressively from $900 million in 2014 to $1,123 million in 2017. Allocations of regular resources to country programmes will be managed according to the modified system for allocation, approved by the Executive Board in 2008 and revised in 2013 (decision 2013/20), which favours countries in greatest need.

Table 4 indicates how regular resources expenditures on approved, new and future proposals for programmes will be phased each year from 2014 through 2017.

30. At the beginning of 2014, regular resource expenditures for ongoing country programmes is estimated at $2,291 million. The amount of regular resources for programmes proposed to the Executive Board for approval in 2014 totals $914 million for programme cycles that start in 2015.

31. For 2015, the estimated amount of regular resources for programme proposals to be approved by the Executive Board is $1,247 million for programmes cycles that start in 2016. The level of planned programme expenditures will be continuously reviewed and adjusted based on updated information on projected revenue.

Institutional budget

32. At its second regular session of 2013, the Executive Board approved a four-year institutional budget of $2,094 million for the period 2014-2017 to support the UNICEF strategic plan, 2014-2017. The budget for development effectiveness, United Nations development coordination, management and special purpose (capital investments) costs is referred to as the institutional budget. It is funded from regular resources, other resources and cost recovery. The 2014-2017 institutional budget as approved is estimated to be funded 55 per cent from regular resources, 39 per cent from cost recovery and 6 per cent directly from other resources.

Cost recovery

33. At its first regular session of 2013, the Executive Board in its decision 2013/05 approved a new cost-recovery methodology and new rates and requested to apply these in the presentation of the 2014-2017 integrated budget proposal. The following two paragraphs provided information on the actual amount and use of cost recovery for period 2012-2013 and proposed for period 2014-2017.

34. For the 2012-2013 biennium an institutional budget for $966 million was approved and planned to be funded with $628 million from regular resources and $338 million from recoveries form other resources. Total expenditure against the approved institutional budget amounted to $924 million of which $571 million was funded from regular resources and $353 million from recoveries from other resources.

35. For the 2014-2017 period, UNICEF has started to apply the new cost-recovery methodology and rates as approved in decision 2013/5. In line with the approved cost-recovery methodology, cost recovery from other resources will fund the management and special purpose (capital investment) activities of the institutional budget. The proposed use of cost recovery is reflected in table 5.

Other resources expenditure

36. The projections of programme assistance expenditure funded by other resources, presented in table 5, reflect efforts to accelerate implementation. Actual other resources expenditure in 2013 was $540 million lower than revenue. Other resources expenditure in 2014 is projected to be 10 per cent greater than other resources revenue and this trend is expected to be maintained for period 2015-2017. The revenue-expenditure gap is financed from the balance of other resources carried over from previous years.

C. Funded reserves

37. The two largest funded reserves are for post-service staff liabilities. These reserves are: the separation fund for repatriation costs and accrued annual leave, and the ASHI fund. The total amount of funded for these reserves is projected to increase from $430 million in 2013 to $550 million in 2017, as shown in table 3.

38. Following discussions with the Executive Board in recent years and in preparation for implementation of the International Public Sector Accounting Standards, which will require the full reporting of after-service staff liabilities in the corporate financial statements, UNICEF has developed and is implementing a robust funding strategy for these liabilities. The strategy will ensure that, over time, the reserve for these liabilities is accumulated from the funding sources to which post costs are correctly attributed. UNICEF will continue to monitor the effectiveness of and make appropriate adjustments to the strategy as financial variables change.

D. Cash balance

39. The regular resources cash balance in 2014 is projected to be $575 million, which is equivalent to five to six months of disbursement. The regular resource cash balance is used as working capital to mitigate liquidity risk related to fluctuations in cash inflows. Unlike other resources, which are allocated to programmes when cash is received from a donor, regular resources allocations for country programmes are made in November for the following year before regular resources funds are received. Therefore, it is critical to have a working capital to start implementation while cash is awaited from donors. Best practice among development organizations is to maintain a working capital sufficient for three to six months of expenditures. In the case of UNICEF, those levels would translate to $300 million to $600 million. The projected working capital falls within that range, reaching $302 million by 2017, as indicated in table 3.

40. As part of efforts to accelerate programme implementation, other resources expenditure is projected to be greater than revenue for every year of the planning period 2014-2017. Therefore, the other resources cash balance is projected to decrease from $1,853 million in 2013 to $541 million in 2017.

III. Draft decision

41. UNICEF recommends that the Executive Board adopt the following draft decision:

The Executive Board

1. *Takes note* of the planned financial estimates for 2014-2017 as contained in document E/ICEF/2014/AB/L.5 as a flexible framework for supporting UNICEF programmes;

2. *Approves* the integrated resources framework of planned financial estimates for 2014-2017 and approves the preparation of programme expenditure submissions to the Executive Board of up to $1,247 million from regular resources

in 2015, subject to the availability of resources and the continued validity of these planned financial estimates;

3. *Requests* UNICEF to provide annual updates to the Executive Board on the progress of funding its reserves for staff liabilities.

Annex

Planned financial estimates tables[1]

1. UNICEF revenue estimates
2. Integrated resources plan: regular and other resources
3. UNICEF planned financial estimates — regular resources
4. Regular resources — yearly phasing of estimated expenditures for programme
5. UNICEF planned financial estimates — other resources
6. UNICEF planned financial estimates — trust funds: procurement services activities

[1] Tables may not add up exactly due to rounding.

Table 1
UNICEF revenue estimates
(in millions of United States dollars)

				Plan		
	Plan 2013	*Actual 2013**	*Estimate 2014*	*2015*	*2016*	*2017*
Regular resources						
Governments	610	587	654	630	630	630
Private sector	543	589	609	651	709	775
Other revenue	70	89	80	80	80	80
Total — regular resources	**1 223**	**1 265**	**1 343**	**1 361**	**1 419**	**1 485**
Growth percentage		-2%	6%	1%	4%	5%
Other resources						
Regular						
Governments	1 115	1 429	1 181	1 197	1 146	1 151
Private sector	540	653	544	581	641	691
Inter-organizational arrangements	126	174	192	188	194	178
Subtotal — programmes	**1 781**	**2 256**	**1 917**	**1 966**	**1 981**	**2 020**
Growth percentage		23%	-15%	3%	1%	2%
Emergencies						
Governments	623	977	548	512	501	501
Private sector	70	195	70	70	70	70
Inter-organizational arrangements	136	160	156	155	155	155
Subtotal — emergencies	**829**	**1 332**	**774**	**737**	**726**	**726**
Growth percentage		62%	-42%	-5%	-1%	0%
Total — other resources	**2 610**	**3 588**	**2 691**	**2 703**	**2 707**	**2 746**
Growth percentage		35%	-25%	0%	0%	1%
Total revenue	**3 833**	**4 853**	**4 034**	**4 064**	**4 126**	**4 231**
Growth percentage		23%	-17%	1%	2%	3%

* Actual 2013 growth in per cent is in comparison to 2012 actual.

Table 2
Integrated resource plan: regular resources and other resources
(in millions of United States dollars)

				Plan		
	Plan 2013	*Actual 2013*	*Estimate 2014*	*2015*	*2016*	*2017*
1. Resources available						
Opening balance	2 606	1 848	2 428	2 160	1 779	1 333
Income						
Contributions	3 763	4 764	3 954	3 984	4 046	4 151
Other income	70	89	80	80	80	80
Total income	3 833	4 853	4 034	4 064	4 126	4 231
Adjustment			-24	-24	-24	-24
Total available	**6 439**	**6 701**	**6 438**	**6 200**	**5 881**	**5 540**
2. Use of resources						
A Development						
A.1 Programmes	3 330	3 649	3 624	3 749	3 881	3 991
Country		*3 385*	*3 451*	*3 575*	*3 682*	*3 809*
Global and regional		*264*	*173*	*174*	*179*	*182*
A.2 Development effectiveness	130	118	133	139	145	151
Subtotal	**3 460**	**3 767**	**3 757**	**3 887**	**4 006**	**4 142**
B United Nations development coordination	**2**	**1**	**9**	**9**	**9**	**9**
C Management	**354**	**320**	**346**	**355**	**362**	**372**
D Special purpose						
D.1 Capital investments	12	11	13	14	14	14
D.2 Private-sector fundraising	132	114	109	111	114	117
D.3 Other	17	32	44	45	43	42
Subtotal	**162**	**157**	**166**	**170**	**171**	**173**
Institutional budget (A.2+B+C+D.1)	**499**	**451**	**501**	**516**	**531**	**547**
Integrated budget (A+B+C+D)	**3 978**	**4 246**	**4 278**	**4 421**	**4 568**	**4 697**
Closing balance of resources*	**2 461**	**2 428**	**2 160**	**1 779**	**1 333**	**843**
Funded reserves						
After-service health insurance	345	371	390	410	430	450
Separation and termination liabilities	60	59	70	80	90	100
Field office accommodation	7	6	5	4	3	2
Procurement services	2	2	2	2	2	2
Total	**414**	**437**	**467**	**496**	**525**	**554**

* Closing balance of resources represents total available cash balance excluding the funded reserves.

Table 3
UNICEF planned financial estimates — regular resources
(in millions of United States dollars)

				Plan		
	Plan 2013	*Actual 2013*	*Estimate 2014*	*2015*	*2016*	*2017*
1. Resources available						
Opening balance	701	443	575	575	504	417
Income						
Contributions	1 153	1 176	1 263	1 281	1 339	1 405
Other income	70	89	80	80	80	80
Total income	1 223	1 265	1 343	1 361	1 419	1 485
Adjustment			(24)	(24)	(24)	(24)
Total available	**1 924**	**1 708**	**1 894**	**1 912**	**1 899**	**1 878**
2. Use of resources						
A Development						
A.1 Programmes	810	787	900	977	1 041	1 123
Country		*770*	*855*	*932*	*996*	*1 078*
Global and regional		*17*	*45*	*45*	*45*	*45*
A.2 Development effectiveness	76	65	111	114	119	124
Subtotal	**886**	**852**	**1 011**	**1 091**	**1 160**	**1 247**
B United Nations development coordination	**2**	**1**	**5**	**5**	**5**	**5**
C Management	**213**	**187**	**146**	**151**	**155**	**161**
D Special purpose						
D.1 Capital investments	12	11	5	5	5	5
D.2 Private-sector fundraising	132	114	109	111	114	117
D.3 Other	17	32	44	45	43	42
Subtotal	**162**	**157**	**158**	**161**	**162**	**163**
Institutional budget (A.2+B+C+D.1)	**303**	**265**	**266**	**275**	**284**	**295**
Integrated budget (A+B+C+D)	**1 263**	**1 198**	**1 319**	**1 408**	**1 482**	**1 576**
Closing balance of resources*	**662**	**575**	**575**	**504**	**417**	**302**
Funded reserves						
After-service health insurance	345	371	390	410	430	450
Separation and termination liabilities	60	59	70	80	90	100
Field office accommodation	7	6	5	4	3	2
Procurement services	2	2	2	2	2	2
Total	**414**	**437**	**467**	**496**	**525**	**554**

* Closing balance of resources represents total available cash balance excluding the funded reserves.

Table 4

Regular resources — yearly phasing of estimated expenditures for programme

(in millions of United States dollars)

	2014	*2015*	*2016*	*2017*	*Beyond 2017*	*Total recommendations*
Programme						
1. Country programmes approved in prior years	757	664	478	362	29	2 291
2. New country programmes to be submitted to 2014 Executive Board sessions		164	176	191	382	914
3. New country programmes to be prepared for 2015 Executive Board sessions			233	253	760	1 247
4. New country programmes to be prepared for future Executive Board sessions				157	628	785
5. Amount set aside	60	65	70	76		
6. Estimated allocation of net revenue from sale of greeting cards in countries with UNICEF programmes	3	3	3	3		
Subtotal	**820**	**897**	**961**	**1 043**		
7. Additional emergency requirements	35	35	35	35		
Subtotal	**855**	**932**	**996**	**1 078**		
8. Global and regional programme	45	45	45	45		
Total — Programme	**900**	**977**	**1 041**	**1 123**		

Table 5
UNICEF planned financial estimates — other resources
(in millions of United States dollars)

				Plan		
	Plan 2013	*Actual 2013*	*Estimate 2014*	*2015*	*2016*	*2017*
1. Resources available						
Opening balance	1 905	1 405	1 853	1 585	1 275	916
Income						
Contributions	2 610	3 588	2 691	2 703	2 707	2 746
Total income	2 610	3 588	2 691	2 703	2 707	2 746
Total available	**4 515**	**4 993**	**4 544**	**4 288**	**3 982**	**3 662**
2. Use of resources						
A Development						
A.1 Programmes	2 520	2 862	2 724	2 772	2 820	2 868
Country		*2 615*	*2 596*	*2 643*	*2 686*	*2 731*
Global and regional		*247*	*128*	*129*	*134*	*137*
A.2 Development effectiveness	54	53	22	24	26	28
Subtotal	**2 574**	**2 915**	**2 746**	**2 796**	**2 846**	**2 896**
B United Nations development coordination	–	–	4	4	4	4
C Management**	**142**	**133**	**200**	**204**	**207**	**211**
D Special purpose						
D.1 Capital investments**	–	–	9	9	9	9
D.2 Private-sector fundraising	–	–	–	–	–	–
D.3 Other	–	–	–	–	–	–
Subtotal	–	–	**9**	**9**	**9**	**9**
Institutional budget (A.2+B+C+D.1)	**195**	**186**	**235**	**241**	**247**	**252**
Integrated budget (A+B+C+D)	**2 715**	**3 048**	**2 959**	**3 013**	**3 067**	**3 120**
Closing balance of resources*	**1 800**	**1 853**	**1 585**	**1 275**	**916**	**541**

* Closing balance of resources represents total available cash balance.
** Amounts reflect use of other resources cost recovery to fund management and capital investments.

Table 6
UNICEF planned financial estimates — trust funds: procurement services activities
(in millions of United States dollars)

			Plan		
	Actual 2013	*Estimate 2014*	*2015*	*2016*	*2017*
1. Opening balance	569	585	757	821	817
2. Receipts	1 561	1 913	1 964	1 893	1 965
3. Disbursements	1 545	1 741	1 900	1 897	1 949
4. Closing balance	585	757	821	817	833